

## Exhibit 4

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<https://www.wsj.com/articles/amazons-heavy-recruitment-of-chinese-sellers-puts-consumers-at-risk-11573489075>

# Amazon's Heavy Recruitment of Chinese Sellers Puts Consumers at Risk

The e-commerce platform has included banned, unsafe, mislabeled products. One reason: It wooed China's manufacturers to sell directly to the U.S.

*By Jon Emont*

Nov. 11, 2019 11:17 am ET

It looked like Amazon.com Inc.'s yearslong quest to build a shopping business in China was a bust in July when it folded a big part of its local business.

In fact, Amazon's China business is bigger than ever. That is because it has aggressively recruited Chinese manufacturers and merchants to sell to consumers outside the country. And these sellers, in turn, represent a high proportion of problem listings found on the site, according to a Wall Street Journal investigation.

The Journal earlier this year uncovered 10,870 items for sale between May and August that have been declared unsafe by federal agencies, are deceptively labeled, lacked federally-required warnings, or are banned by federal regulators. Amazon said it investigated the items, and some listings were taken down after the Journal's reporting.

Of 1,934 sellers whose addresses could be determined, 54% were based in China, according to a Journal analysis of data from research firm Marketplace Pulse.

Amazon's China recruiting is one reason why its platform increasingly resembles an unruly online flea market. A new product listing is uploaded to Amazon from China every 2/100th of a second, according to slides its officials showed a December conference in the industrial port city of Ningbo.

Chinese factories are squeezing profit margins for middlemen who sell on Amazon's third-party platform. Some U.S. sellers fear the next step will be to cut them out entirely.

Tony Sagar began noticing the China effect around 2015. His company, Down Under Bedding in Mississauga, Ontario, had sold goose-down duvets on Amazon since 2014—these days, for \$699 for a queen-size version. Then Chinese competitors hit, listing goose-down duvets for

sometimes a sixth his price. He bought one and had it tested: Inside was inexpensive duck down.

The Journal in October bought a duvet from the same Amazon seller claiming “100% Fill With Goose Down” and had it tested. The result matched Mr. Sagar’s: duck feathers.

“They’re claiming they’re selling a \$500-\$700 duvet based on false specifications, so people say, ‘\$120, it’s a good deal!’ ” Mr. Sagar said. “Amazon is making a direct push for these factories in China.”

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#### AMAZON’S UNRULY MARKETPLACE

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- Amazon Has Ceded Control of Its Site. The Result: Thousands of Banned, Unsafe or Mislabeled Products
  - VIDEO: How Scammers in China Manipulate Amazon
  - Amazon Sells Clothes From Factories Other Retailers Blacklist
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an said,

“Bad actors make up a tiny fraction of activity in our store and, like honest sellers, can come from every corner of the world. Regardless of where they are based, we work hard to stop bad actors before they can impact the shopping or selling experience in our store.”

Amazon said it took enforcement action on the duvet seller and that its products were no longer for sale on the site. The seller’s listings appeared to be gone from Amazon’s U.S. site as of last week.

Mr. Sagar’s discovery came as Amazon was expanding a campaign it started around 2013 urging Chinese businesses to sell directly to consumers abroad. An Amazon sales director, Alicia Liu, at a 2017 conference told Chinese business people she was leading a team in China, drawing on her previous experience cutting out middlemen in Walmart Inc. ’s supply chain.

“We help factories directly open accounts on Amazon and sell to U.S. consumers directly,” a video shows her telling them. “This is our value.”

A wave of Chinese merchants have joined Amazon’s millions of third-party sellers worldwide, who collectively represent more than half of Amazon’s physical gross merchandise sales.

Among the 10,000 most-reviewed accounts on Amazon’s U.S. site whose locations could be determined in October, about 38% were in China, Marketplace Pulse calculates, compared with 25% three years ago.

The Amazon spokesman said 38% “is a significant exaggeration of the real percentage of the top ten thousand” and that the methodology is flawed, citing what it said were problems with the

way in which the analysis used seller review counts to estimate the percentage. Marketplace Pulse said it stood by its analysis.

## Site control

How Amazon exercises control of its site has come under scrutiny from some in Congress, where some lawmakers are calling for more regulation of the company. That is part of a growing backlash in Washington over how tech companies run their platforms.

Amazon's third-party marketplace, which connects merchants and buyers around the world, is crucial to the company's growth. At the same time, even though it has become a source of fake or dangerous goods, Amazon has denied it is liable for what's sold there, saying in court cases that it neither makes nor sells the products in question.

In its annual Securities and Exchange Commission filing this year, Amazon disclosed for the first time that counterfeits and fraudulent products are a risk factor. It said Amazon may be "unable to prevent sellers in our stores or through other stores from selling unlawful, counterfeit, pirated, or stolen goods," among other issues.

Amazon said it recruits sellers in many countries and that these merchants are central to its goal of offering customers good selection at good prices. Amazon said it requires products to comply with applicable laws and regulations. It said that in 2018 it blocked more than three billion suspect listings for various forms of abuse.

Consumers and businesses with safety and intellectual-property grievances have found it hard to hold Chinese sellers accountable—in part because Amazon doesn't require its sellers to provide their locations to the public on its U.S. site.

The Journal identified sellers as being in China from their pages on Amazon's site in Mexico, where regulations require sellers to list their locations on Amazon—a method Marketplace Pulse also uses.

New sellers from China are hurting merchants that have built Amazon businesses offering products they import from Chinese factories, said Amazon seller Bernie Thompson. His Plugable Technologies in Redmond, Wash., lists electronics products made in China. Since about five years ago, Chinese manufacturers selling on Amazon have priced him out of some product categories, he said—some of them his own suppliers and others who game Amazon's rating system, he said.

"Amazon is trying to disintermediate everyone they can, and get products as directly as possible to consumers," he said. "In a way, they're a perfect partner for China Incorporated to engage with to take them around the world."

The Amazon spokesman said: “Independent retailers in the U.S. are enjoying record sales in our store.” Amazon said more than 75% of the 10,000 top sellers by gross sales in its U.S. store were America-based as of 2018 and that the company spends more recruiting U.S. sellers than sellers from any other location.

## Global recruiting

In China over the past six years, Amazon has made its site more accessible to Chinese speakers, created special programs that address Chinese sellers’ logistical needs and sent a stream of employees to recruit suppliers.



Amazon ‘is the most cost-effective way to sell into the United States,’ says businessman Zhao Weiming. A factory in southern China produces his Lagunamoon-branded products. PHOTO: BILLY H.C.KWOK FOR THE WALL STREET JOURNAL

At the 2017 conference, Ms. Liu, who said she had spent over a decade purchasing for Walmart, told Chinese sellers that when she joined the industry in 2004, around 90% of her suppliers were trading companies and that by 2017, around 80% were the factories themselves. Ms. Liu said the same logic applied to Amazon, the video shows.

“Let’s cut out the middleman,” said Geoffrey Stewart, an Amazon employee in Shenzhen, at an April trade event in Hong Kong in a video the Journal viewed. “We think that will enhance margins for our manufacturing partners and it will delight customers.”

Amazon said Ms. Liu’s and Mr. Stewart’s comments didn’t mean Amazon was less committed to helping sellers everywhere. Ms. Liu, who no longer works at Amazon, didn’t respond to LinkedIn messages, and the Journal couldn’t determine where she now works. Amazon said Mr. Stewart wasn’t available for comment. Walmart declined to comment on Ms. Liu’s assertions.

Amazon seller Zhao Weiming said the site “is the most cost-effective way to sell into the United States.” The Guangzhou businessman experimented several years ago listing gadgets on Amazon before settling on cosmetics and essential oils, he said, establishing factories

to produce them under the name Lagunamoon. He said his company earns \$50 million a year on Amazon.

Listings for some popular Lagunamoon essential oils claimed they were U.S. Food and Drug Administration approved, until the Journal raised the matter with Amazon and Mr. Zhao in early November. An FDA spokesman said essential oils wouldn't meet the agency's definition of an approved product, although it was possible some component—a dye, say—might be approved.

Mr. Zhao said FDA requirements are complex and he didn't want to use tens of thousands of words to explain.

Amazon said it was investigating the case and would take proper action. It said sellers are prohibited from listing products that improperly claim to be FDA cleared or FDA approved, or improperly include the FDA logo. At least one Lagunamoon essential-oil listing that cited FDA approval had that claim removed after inquiries from the Journal.

Concerns at Amazon about Chinese listings arose several years ago in its China team, which noticed that as local sellers flocked to the platform, it saw increasing patterns of fraud, counterfeits and unsafe products, said former Amazon employees in China.

Washington state's attorney general's office said Amazon agreed to pay \$700,000 as part of a legally binding agreement after an investigation revealed dozens of products marketed toward children had excessive lead and cadmium. The products were made in China, the office said, some sold by China-based third parties. Amazon didn't admit wrongdoing.

"Customer safety is Amazon's top priority," said the Amazon spokesman. "We work closely with our selling partners to verify that the school supplies and children's jewelry in our store are safe."

## **Bogus brushes**

Cheap Chinese counterfeits drove Kevin Williams, a Utah seller of water-powered cleaning brushes on Amazon, to lay off six employees this year—most of his U.S. staff, he said. He and his co-founder developed their patented Brush Hero product, made in the U.S. and U.K., in 2015 after finding it difficult to clean their vehicles, selling them on Amazon for \$34.99.

Poorly made copies began appearing in 2018 on Amazon, eventually listing for as low as \$9.99, some claiming to be the Brush Hero brand, he said. Buyers, unaware they were fake, trashed Mr. Williams's products on his Amazon page, he said. When he complained to Amazon, he said, it told him to order the alleged counterfeits and test them. Amazon removed brushes he proved counterfeit, he said, but it could take weeks for them to arrive for testing, and new counterfeits kept popping up.





Kevin Williams, co-owner of Brush Hero, at his distribution warehouse in Salt Lake City, Utah on November 8, 2019. PHOTO: LINDSAY D'ADDATO FOR THE WALL STREET JOURNAL

He dropped prices to \$19.99, which “pulled out the rug from us from a cash-flow perspective” he said. A retailer declined to give him a large contract. “He said, ‘What the heck, your Amazon reviews are terrible,’ ” said Mr. Williams, who calls his company “walking dead.”

Amazon said that it acted on infringement cases where Brush Hero provided adequate information and that it has introduced programs for sellers to fight counterfeits, including one called Project Zero that uses automation to scan Amazon stores and remove suspected counterfeits.

Counterfeits and inauthentic reviews “have all gone through the roof with the rise of Chinese sellers,” said Chris McCabe, an investigator for Amazon until 2012, now a consultant helping Amazon sellers counter illicit competition.

Inauthentic reviews for listings from China can trick Amazon’s algorithm into boosting products, people outside Amazon familiar with the activities said. A search for “travel pillows” in August presented products with names such as MLVOC offered by sellers whose names matched those of Amazon accounts registered in southern China.

The Journal ordered MLVOC-brand pillows from sellers named Corki and Kingstyle Supplies, and got gift cards offering a free pillow if the buyer emailed an address—the same address for both sellers. A “Gift card team” responded, asking the buyer to give a five-star review for which it promised an Amazon gift card. Of one MLVOC pillow’s roughly 2,000 reviews, about 86% have five stars.

Amazon policy forbids making inducements for positive reviews. Amazon said it investigated and took action, eventually reinstating Kingstyle and Corki. Amazon said in some cases it will reinstate seller accounts after violations if the sellers provide corrective action plans, though the accounts would be blocked after further infractions.

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*Do you care what country your Amazon seller is in?* Join the conversation below.

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In response to a query sent to the email address given by Corki and Kingstyle, a respondent

wrote: “I can’t share the company information.” The sellers didn’t respond to requests for comment sent through Amazon’s platform.

Travel-pillow seller Teri Mittelstadt, co-founder of HiGear Design Inc. in California, said counterfeits and review manipulation from China have hurt sales. Her patented Travelrest pillows, which attach to airline seats to prevent slipping, were among the top-selling travel pillows on Amazon for seven years starting in 2008, she said, but now rank in the 20s or lower.

“The person who gets hurt the most is the consumer who buys the product. They think they are buying a product with all these great reviews,” she said.

Amazon said Travelrest’s sales on Amazon have steadily grown year-to-year since 2015. Ms. Mittelstadt said her sales growth has slowed significantly over the past two years and that this year her sales are down on Amazon’s U.S. site.

## Strategy shift

Starting in the mid-2000s, Amazon’s attempt to build an online retail business in China was thwarted by local competitors like Alibaba. Early this decade, it began experimenting with the new strategy, and employees “realized that global selling is much bigger” than selling in China, a former Amazon manager said.

At a Shenzhen trade fair in early 2013, no one had heard of Amazon, said Steven Chen, who says Amazon dispatched him to recruit Chinese sellers. He left Amazon in 2015 and operates an e-commerce consulting business.

Amazon employees distributed Chinese-language tutorials on opening Amazon accounts to prospective new sellers, people familiar with the company’s strategy said. Interns in Beijing phoned vendors on Chinese e-commerce sites to invite them to join Amazon.

Chinese sellers’ products often took weeks to ship across the Pacific and arrive at buyers’ addresses. So Amazon offered a logistics system, “Dragonboat,” which for a fee brought goods made in China and elsewhere to Amazon fulfillment centers in the U.S.

American buyers could receive purchases within 48 hours in Amazon boxes, said a former high-level Amazon China employee and a Chinese seller who used the service.



By 2015, Amazon's website was functional for sellers in Mandarin. Its team responsible for signing up and assisting Chinese sellers expanded to 120 people in 2016, said the former high-level employee. Other employees built relationships with businesses such as Chinese logistics-services providers and translator services, asking them to encourage clients to establish Amazon accounts.

It is often hard to tell that an Amazon seller is based in China, as is the case with the Amazon page of Lagunamoon, the essential-oil and cosmetics provider. It shows no indication the products are Chinese and gives no store address. Lagunamoon's Mr. Zhao said that is because the U.S. doesn't require it.

Amazon seller Molson Hart in Texas is suing 73 sellers, many located in China, in Texas federal court, for trademark infringement on products like his Brain Flakes interlocking plastic disk set. He has been selling the Chinese-made toys on Amazon since 2014, and counterfeits started appearing in 2015, he said.

After he filed suit, he couldn't hunt down the Chinese companies. "I know who did it," he said, "but I can't serve them."

Amazon said it has worked closely with brands to support criminal referrals against counterfeiters in China and anticipates working with brands to jointly pursue litigation in the U.S. and China.

Amazon buyer Irvin R. Love Jr. of Georgia bought a hoverboard on Amazon in November 2015 that caught fire and burned down his home, according to a suit he filed February 2018 against Amazon, the seller and others, in Georgia federal court. In an amended complaint this year he alleged that Amazon was negligent for not removing the hoverboard from its website before Mr. Love's purchase. Amazon argued in a legal filing that it doesn't owe damages because it didn't design, manufacture or sell the hoverboard.

Mr. Love also sued the seller, Panda Town, which his lawyer, Darren Penn, said appeared to be a Chinese company, based on sales information. Mr. Penn said that he can't locate the seller and that Amazon declined to provide its location.

Cross-border e-commerce has made it harder to police unsafe products entering the U.S., he said. "When you had the traditional importer and customs and brokers—and all those procedures are followed—you provide a couple of layers of protection that you don't when you're talking about an internet market." The case is in discovery, and Mr. Penn declined to make Mr. Love available for comment.

Amazon said it has provided information about the seller to the plaintiff, consistent with its policy on such matters. Panda Town doesn't appear to list on Amazon anymore, and the Journal couldn't locate a company by that name.

## **‘Not normal’**

Product safety on Amazon and other online marketplaces isn’t assured, because Amazon doesn’t require all third-party sellers to test products to prove they are compliant with regulations, said Sebastien Breteau, chief executive of QIMA, an inspection, certification and audit company that is an Amazon vetted service provider.

“It’s not normal that a factory with 200 people manufacturing baby monitors in Dongguan can ship products directly to consumers in Minnesota or in Europe through a marketplace,” he said. “The day the regulator makes them responsible, then we’ll have proper compliance programs.”

Amazon said sellers create their own product listings and are required to comply with all relevant laws and regulations when listing items for sale in Amazon stores.

Mr. Thompson, the electronics seller, said Chinese factories have steadily pushed him out of lower-end goods such as USB cables, pricing at less than he can. The Chinese sellers often boost their product rankings by arranging large purchases of their own products and leaving positive reviews for themselves, he said—a tactic he said he learned about while attending an independent Amazon-seller event featuring a China-based sales consultant in Hong Kong several years ago.

He now counts on selling higher-end products like \$199 docking stations for displays and charging electronic devices, he said, but “there really isn’t much upper end left for us.”

Amazon said competition is a part of business and some more-mature product categories can be particularly competitive. The spokesman said its goal is to quickly remove abusive reviews and that over the past month “over 99% of the reviews read by customers were authentic.”

Chinese sellers were seen as too valuable to give up, despite warning signs, a former Seattle-based Amazon employee said. “There were crazy things, hundreds of listings created every hour,” the person said, adding that when U.S. vendors complained, staff told them, “We don’t control third-party selection. It’s not us, it’s an open-end platform.”

## **Goose-down test**

Mr. Sagar, the goose-down-duvet seller, said an employee posing as a customer last year contacted Rosecose, the Chinese seller of the down duvet on Amazon, offering proof its product was deceptively listed. A Rosecose representative apologized and said its suppliers could be to blame, offering to refund the lab-test costs, according to messages the Journal viewed.

The employee last year also sent an email to Amazon with the test results showing the duck down, he said. Rosecose kept listing duvets, Mr. Sagar said.

The Journal bought a duvet on Amazon from Rosecose in October and sent its own test results to Amazon late in the month. Early this month, Rosecose was still selling duvets on Amazon as “100% Fill With Goose Down,” including a king-size option listing for \$129.99.

The Wall Street Journal verified Rosecose was based in China by visiting its page on Amazon’s Mexican site, which listed its location. Rosecose didn’t respond to inquiries sent through Amazon and no one picked up calls to a phone number associated with the brand.

Amazon said it took down Rosecose listings Nov. 4. They appeared to be gone from the U.S. site early last week, but some still appeared on Amazon’s Canada site until after the Journal pointed them out to the company.

*—Shane Shifflett, Stella Yifan Xie and Lekai Liu contributed to this article.*

*—Illustration by Jessica Kuronen/WSJ*

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